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ABSTRACT

The United State provides military training on a grant or sales basis to foreign governments. Under the Foreign Assistance Act of 1961, as amended, the Congress makes grants available to foreign governments for training through the International Military Education and Training (IMET) program. The Arms Export Control Act, as amended, authorizes the Department of Defense to sell training to foreign countries under the foreign military sales (FMS) program. Appropriations for the IMET program and revenues received from the FMS program do not fully reimburse the services for the cost of training foreign students. Indirect training costs are waived for NATO countries, and incremental pricing is allowed for countries receiving IMET grant training. The Reagan administration has proposed amending the Arms Export Control Act to eliminate the current multitier pricing structure on the sale of training and permit only the recovery of incremental or additional costs for both the IMET and the FMS programs. If approved, the proposal would substantially reduce the amount foreign customers pay for U.S. military training. (Appendixes include examples of training course prices and proposed legislative amendments.) (YLB)

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ED244163

BY THE COMPTROLLER GENERAL

Report To The Chairman Committee On Foreign Affairs House Of Representatives OF THE UNITED STATES

Tuition Rates Charged Foreign Governments For Military Training Should Be Revised

Military training is provided to foreign governments under two programs, the Foreign Military Sales Program and the International Military Education and Training program. Countries purchase training under the Sales program while the training is grant-financed in the latter case. At the request of the Chairman, House Committee on Foreign Affairs, GAO reviewed the effect of past changes in the pricing of training and evaluated an administration proposal for further pricing changes.

Revisions to the Arms Export Control Act, which authorizes Foreign Military Sales training, have decreased the amounts paid by foreign countries by an estimated $30 million annually. Furthermore, the administration's proposal to amend the Arms Export Control Act would reduce current training revenues by an additional $40 million annually and increase the costs funded by defense appropriations.

GAO is recommending that the Congress establish a single pricing structure for foreign military training based on full cost and provide guidelines to discount prices if warranted for political or national security reasons. GAO is also recommending that the full cost of the grant program be funded under the International Military Education and Training appropriation or that the authorizing legislation be amended to provide for full disclosure of all costs.

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February 21, 1984

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-207663

The Honorable Dante B. Fascell
Chairman, Committee on Foreign
Affairs
House of Representatives

Dear Mr. Chairman:

While in the process of reviewing security assistance training provided to foreign governments by the Department of Defense, your office, on September 28, 1983, requested that GAO provide a chronology of the pricing changes which have occurred in foreign military training since 1975. Your request also asked that we assess the effects of these changes on the Arms Export Control Act's requirement for full cost recovery. In further discussions with your office, we were asked to evaluate the impact of the administration's proposal to establish a single price for foreign military training. This report is provided in response to these requests.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from the date of this letter. At that time, copies of the report will be forwarded to appropriate House and Senate Committees; the Director, Office of Management and Budget; and the Secretaries of State and Defense.

Sincerely yours,

Milton J. Socolar

Acting Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CHAIRMAN,
COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

TUITION RATES CHARGED FOREIGN GOVERNMENTS FOR MILITARY TRAINING SHOULD BE REVISED

D I G E S T

Due to revisions to the Arms Export Control Act amounts paid by foreign customers for military training have progressively decreased and an estimated $30 million is not recovered annually. Also, the administration's current proposal to amend the Arms Export Control Act would reduce current training revenues by over $40 million annually. As a result, more costs will be funded by defense appropriations.

The Chairman of the House Committee on Foreign Affairs asked GAO to provide a chronology of the price changes which have occurred in foreign military training since 1975 and their impact on the act's requirement for recovery of full cost. (See Chapter 2.) He also asked GAO to analyze the impact of the administration's current proposal to establish a single price for selling military training to foreign countries. (See Chapter 3.)

Official comments on this report were not obtained from the Departments of State and Defense. However, the contents of this report were discussed with appropriate officials in these departments.

BACKGROUND

The United States provides military training on a grant or sales basis to foreign governments. The Department of State has the principal role in formulating policy for this program, but the Department of Defense, through the Defense Security Assistance Agency (DSAA), implements the program.

Under the Foreign Assistance Act of 1961, as amended, the Congress makes grants available to foreign governments for training through the International Military Education and Training (IMET) program. The IMET program totaled $46

Tear Sheet

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million in fiscal year 1983; $26 million of this was for tuition and the remaining $20 million was for travel and living allowance, medical costs, and operating costs for some of the Panama Canal area schools. In addition, the Arms Export Control Act, as amended, authorizes Defense to sell training to foreign countries under the foreign military sales (FMS) program. About $194 million in training was provided in fiscal year 1983 under the sales program.

The Assistant Secretary of Defense/Comptroller provides guidelines to the services to price training. The guidelines are used to compute training costs reimbursable to the services from appropriated grant funds under IMET and to determine the tuition rates to be charged countries purchasing training under the FMS program. (See p. 1.)

FULL COST OF THE TRAINING PROGRAM NOT BEING RECOVERED

Recovering the full cost of U.S. government involvement in FMS has been a continuing concern of the Congress. The Arms Export Control Act requires that foreign countries pay the full cost of training purchased including an appropriate charge for administrative services, calculated on an average percentage basis to recover the full estimated cost of administering sales made under the act. However, it allows two exceptions:

--North Atlantic Treaty Organization (NATO) countries and a few other allies, and
--those countries concurrently receiving IMET grant training.

These exceptions and the failure of Defense to apply its pricing guidelines have resulted in reduced revenues of millions of dollars annually to the U.S. government. Consequently, these unrecovered costs continue to be funded by Defense appropriations. Under a full cost concept, the costs to the Defense appropriations of about $30 million annually for the FMS program could be considered undisclosed foreign assistance for that program. (See p. 6.)

Reciprocal training agreements with NATO and other countries result in unreinbursed costs

The Arms Export Control Act allows for waiving certain indirect costs for military personnel in training from Australia, Japan, New Zealand and the NATO countries pursuant to agreements for cooperative training assistance. The act states that these costs may be waived if the financial principles of the agreements are based on reciprocity. During 1977, Defense entered into such an agreement with the members of NATO and with Australia in 1981 and New Zealand in 1982. (See pp. 8 and 9.)

Information provided by Defense indicates that Defense appropriations bear about $14.3 million in unreimbursed training costs annually because of the agreements. (See p. 10.)

Incremental pricing for countries receiving IMET grant training

The 1980 amendments to the Foreign Assistance Act and the Arms Export Control Act allow for incremental pricing of training funded (1) under the IMET grant program and (2) for training purchased under the FMS program by those countries concurrently receiving IMET grant assistance. According to DSAA, this means charging only the additional costs incurred in providing training over and above the costs associated with providing the training simultaneously to U.S. students.

The services repriced, at GAO's request, the training purchased at the FMS/IMET rates during fiscal year 1982 up to the applicable full FMS or FMS/NATO rates. The results showed the 1980 amendment resulted in reduced tuition revenues amounting to about $16.7 million in fiscal year 1982. (See pp. 11 and 12.)

GAO found that in 1982, incremental prices were charged for 30 courses that were for foreign students only. Defense calculated incremental prices for these courses on the basis of incremental pricing for courses with mostly U.S. students. The costs not recovered in these courses totaled up to $4.9 million for FMS/IMET students. The unrecovered costs

resulted from Defense's inappropriate application of its own cost pricing instructions. (The $4.9 million is included in the $16.7 million cited above.) (See pp. 13 and 14.)

Also, as pointed out in the administration's current proposal to amend the Arms Export Control Act, the 1980 amendment has created an incentive for giving token grant assistance to allow countries to purchase more expensive training at the lowest rate. (See pp. 10 and 18.)

FULL COSTS NOT COVERED BY IMET GRANTS

IMET rates are also based on incremental pricing. However, since actual training costs are higher than the IMET rates, the total cost of the IMET grant program is more than the amount ($46 million in 1983) appropriated by the Congress under the IMET appropriation. (See p. 11.)

While GAO recognizes that the law authorizes not charging for all costs, GAO previously recommended that Defense accumulate IMET cost data so that the Congress would know the costs borne by Defense appropriations. Because of the lack of a Defense system to accumulate total program costs, GAO did not estimate the amount of program costs borne by the military departments.

ADMINISTRATION PROPOSAL TO REVISE PRICING SHOULD NOT BE ADOPTED

The administration has proposed amending the Arms Export Control Act to eliminate the current multitier pricing structure on the sale of training and permit only the recovery of incremental or additional costs for both the IMET and the FMS programs. If approved, the proposal would substantially reduce the amount foreign customers pay for U.S. military training. (See p. 16.)

The Departments of State and Defense explain that the amendment would (1) reduce discriminatory treatment, (2) enable poorer countries to obtain more U.S. training, (3) eliminate the incentive to provide token levels of IMET grant assistance in order to lower FMS tuition

rates, and (4) reduce the costs of administering training sales. The Departments also state that the proposal would provide for charging purchaser countries only for the "additional" or incremental costs incurred in providing training over and above the costs associated with providing the training simultaneously to U.S. trainees. GAO believes that the amendment would further erode the full cost recovery principle. (See p. 18.)

The services recalculated, at GAO's request, the tuition revenues from the countries currently paying the full FMS or FMS/NATO rates, to show the effect the amendment would have had in fiscal year 1982. Repricing showed that more than $38 million in training revenue would have been lost if the amendment had been applied during 1982. Congressional Budget Office staff estimated that the lost revenue would increase to $47.5 million in 1985. (See p. 17.)

GAO questions the merit in allowing this further reduction in revenues. The calculation by the services shows that virtually all the $38 million would have been saved by the affluent industrialized or oil rich countries such as the Federal Republic of Germany, Japan, Kuwait, and Saudi Arabia, which would appear to be able to pay the full cost for the training. (See. p. 18.)

CONCLUSIONS

Recent legislative changes have reduced the training rates charged foreign governments and increased the amount of program costs being funded by Defense appropriations. GAO estimates that the pricing changes have reduced annual tuition revenues by about $30 million.

Incremental pricing has also obscured the total cost of the grant program by reducing the amount of training costs reimbursable to the military departments from appropriated IMET grant funds and thereby increasing the costs that must be funded by Defense appropriations. Therefore, the total cost of the grant progam is more than the amount ($46 million in 1983) appropriated annually by the Congress for IMET.

Since the services do not accumulate or report the amount of unrecovered costs associated with the FMS or IMET programs, the Congress and Defense are unaware of the total costs of these programs and how much of these costs is being borne through Defense appropriations. Only total cost data provide a comprehensive picture of the value of U.S. foreign aid provided in the form of military training assistance.

GAO believes the proposed amendment to the Arms Export Control Act would result in further eroding the full cost recovery principle and reduce revenues by over $40 million annually. GAO also recognizes that the Congress has intended for some countries, because of political or national security reasons, to obtain training at a reduced price and believes this could be accomplished by discounting the price of the training. For example, if the Congress desires that some countries receive training at a reduced price, it could authorize a discount. This would simplify the rate determination process while also identifying the value of the training costs being waived.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress should consider amending the Arms Export Control Act to establish a single pricing structure for all training provided under the FMS program, based on full cost determined in accordance with generally accepted accounting principles. If the Congress desires some countries or groups of countries to be able to purchase training under the FMS program at less than the full cost because of political or national security reasons, it should provide guidelines for discounting prices in those cases and require disclosure of the costs waived.

In the interest of congressional oversight and sound management, the Congress could take legislative action to completely fund the full cost of the IMET grant program under the Foreign Assistance Appropriation Act rather than under both the Foreign Assistance Appropriation Act and the Defense Appropriation Act, as

is the current practice. Alternatively, the Congress should consider amending the Foreign Assistance Act to provide for disclosure of all unreimbursed costs of the IMET program.

(Appendix IV contains draft legislative language for some of these amendments.)

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ABBREVIATIONS

CBO	Congressional Budget Office
DSAA	Defense Security Assistance Agency
FMS	Foreign Military Sales
IMET	International Military Education and Training
NATO	North Atlantic Treaty Organization

CHAPTER 1

INTRODUCTION

The United States provides military training on both a grant and sales basis to foreign governments. The Department of State has the principal role in formulating policy for this program, as well as other security assistance programs, but the Department of Defense through the Defense Security Assistance Agency (DSAA), implements the program. The statutory basis for the program is found in the Foreign Assistance Act of 1961, as amended, and the Arms Export Control Act of 1976, as amended.

Under the Foreign Assistance Act, the Congress makes available to foreign governments grant-funded training through the International Military Education and Training (IMET) program. The IMET program totaled $46 million in fiscal year 1983; $26 million of this was for course tuition and the remaining $20 million was for travel and living allowance, medical costs, and operating costs for some of the Panama Canal area schools. In addition, the Arms Export Control Act authorizes Defense to sell training to foreign countries under the foreign military sales (FMS) program. About $194 million in training was provided in fiscal year 1983 under the sales program.

MULTITIER PRICING

The Acts prescribe a multitier pricing structure for training provided under the grant and the military sales programs. The Assistant Secretary of Defense/Comptroller provides guidelines to the military services to price training. The guidelines are used to compute training costs reimbursable to the services from appropriated grant funds and to determine the various tuition rates to be charged countries purchasing training under the FMS program.

The present pricing structure for security assistance training provides for four tuition rate categories: 1) IMET, the price for training provided under the grant program, 2) FMS/IMET, the price charged for training purchased by countries concurrently receiving grant assistance, 3) FMS/NATO, the price charged member countries of the North Atlantic Treaty Organization (NATO) and countries having reciprocal training agreements with the United States, and 4) FMS, the price charged all other countries. These rates differ because various cost elements are excluded from some rates and others are charged only on an incremental cost basis, as shown in the table on page 2.

According to DSAA in its legislative proposal to reduce training rates, incremental costing provides that tuition rates include only the additional costs incurred to train foreign military students simultaneously with U.S. military students. The

theory behind incremental costing is that the services are already incurring certain costs to train U.S. students and that foreign governments should be charged only the additional cost of adding foreign students to an existing U.S. course or school. Incremental tuition rates do not include the full and proportionate cost of training support, base operations support, or training organization overhead.

Cost Elements Used In Establishing
The Multitier Tuition Rates

	Tuition Rates			
	IMET	FMS/IMET	FMS/NATO	FMS
Direct Costs:				
Civilian labor	*	*	X	X
Civilian retirement	0 [1]	0 [1]	X	X
Military labor	0	*	X	X
Military retirement	0	0	X	X
Materials/other	*	*	X	X
Informational program	X	X	X	X
Indirect Costs:				
Civilian labor	*	*	0	X
Military labor	0	*	0	X
Materials/other	*	*	0	X
Asset use charge	0	0	0	X
Administrative surcharge	0	X	0	X

X Full cost 0 Not charged * Incremental cost

[1]DOD officials explained that it is the unfunded portion of civilian retirement costs that is not included.

Under the multitier pricing structure, tuition rates for the same training differ widely. For example, the rate for a student at the Army Command and General Staff College ranges from $2,739 at the IMET rate to $28,978 at the FMS rate. (App. III gives other examples of rate disparity.)

IMET RATE

The IMET rate includes only the incremental, or "additional," costs incurred by the United States in providing training simultaneously to U.S. and foreign military students. Excluded are military personnel costs and the costs of unfunded civilian retirement. Training costs not charged because of incremental costing continue to be funded by Defense appropriations. In addition, the IMET rate does not include the 4-percent asset use charge on training facilities and equipment or the 3-percent administrative surcharge charged most FMS program purchasers.

FMS/IMET RATE

The Arms Export Control Act also authorizes incremental pricing for training purchased by countries concurrently receiving grant assistance under the IMET program. Although the FMS/IMET

price includes military salaries and the administrative surcharge, it does not include military or unfunded civilian retirement costs or the asset use charge. As with the IMET tuition rate, training costs not charged because of incremental costing continue to be funded by Defense appropriations.

FMS/NATO RATE

The NATO agreements allow for reciprocal training among signatory countries at substantially reduced prices. The training provided by the United States to FMS NATO rate does not include any indirect costs, such as base operation costs, the asset use charge, or the administrative surcharge. The Arms Export Control Act allows for similar reciprocal training agreements with Japan, Australia, and New Zealand. To date the United States has signed agreements with Australia and New Zealand allowing these two countries to purchase training at the reduced FMS/NATO prices.

FMS RATE

The FMS price is developed on the premise that the United States will neither make nor lose money in any FMS undertaking. Consequently, direct and indirect costs for a particular course of instruction are included as well as the asset use charge and the administrative surcharge.

ADMINISTRATION'S PROPOSAL TO ELIMINATE MULTITIER PRICING

The administration has proposed an amendment to the Arms Export Control Act which would eliminate the current multitier pricing of training sold through the FMS program. The proposal calls for eliminating the FMS/NATO and the full FMS tuition rates and charging all purchasing countries the FMS/IMET rate or only the incremental cost incurred by the United States. The rates for the IMET program would remain the same. This proposal is discussed in chapter 3.

OBJECTIVES, SCOPE, AND METHODOLOGY

In a letter dated September 28, 1983, the Chairman of the House Committee on Foreign Affairs asked that we provide a chronology of the price changes which have occurred in foreign military training since 1975 and their impact on the Arms Export Control Act's requirement for full cost recovery. The request was later expanded to include assessing the impact of the administration's proposal to establish a single price for military training.

We conducted our review from June through November 1983 at the Departments of State and Defense and at the following military departments and organizations which administer the security assistance training program.

--Defense Security Assistance Agency, Washington, D.C.

--Headquarters, Departments of Army, Navy, and Air Force, Washington, D.C.

--Army Training and Doctrine Command, Fort Monroe, Virginia

--Chief of Naval Education and Training, Pensacola Naval Air Station, Florida

--Foreign Military Training Affairs Group, Randolph Air Force Base, Texas

To determine the chronology of the pricing changes that have occurred since 1975 and assess their impact on the Arms Export Control Act's original requirement for full cost recovery, we

--examined laws, regulations, and instructions;

--reviewed Defense studies and reports;

--interviewed Department of State and Defense officials;

--visited the responsible service components and interviewed officials; and

--reviewed files and records in order to obtain relevant data at all levels visited.

At our request, the services recalculated the 1982 revenues, which are the most currently complete data available, at the higher FMS/NATO or full FMS rates for the countries that received IMET grants and also purchased training at the lower FMS/IMET rates, to demonstrate the effect that the 1980 amendment to the Arms Export Control Act had on reducing revenues. Also, using cost data provided by the services we calculated the total costs of the courses dedicated solely for foreign students, except for the Panama Canal Area Schools and the Defense Language Institute/ English Language Center, and compared the cost with the reimbursements to determine if the full cost was not being recovered.

To show the impact of the administration's proposed amendment, the military at our request, recalculated the 1982 revenues at the lower amount that would have been received from the countries affected by the proposed amendment, had the amendment been in effect in 1982.

The costs and statistics provided by Defense were accepted without verification. We did, however, ascertain that these

costs appeared reasonable in light of data previously reported by Defense. At the request of the Committee, official comments on this report were not obtained from the Departments of State and Defense but the contents of this report were discussed with appropriate officials of these departments. In all other respects, the review was carried out in accordance with generally accepted government auditing standards.

CHAPTER 2

CHRONOLOGY OF PRICING CHANGES THAT HAVE REDUCED TRAINING REVENUES

The appropriations for the IMET program and revenues received from the FMS program do not fully reimburse the services for the cost of training foreign students. Consequently, these unreimbursed costs continue to be funded by Defense appropriations and under the full cost concept could be considered undisclosed foreign assistance for those countries receiving training under these programs. Since Defense regularly reports only those security assistance training program costs which are reimbursed, either by appropriated IMET grant funds or FMS revenue, the Congress is not being made aware of the total cost of the grant and sales program or the amount of foreign assistance being funded by the Defense appropriations. Our review showed that the FMS program requires about $30 million annually in Defense appropriations and that the actual cost of the IMET program is more than the amount ($46 million in 1983) appropriated by the Congress.

RECOVERY OF FULL COST IN THE FMS PROGRAM

In 1968, the Congress revised and consolidated legislation governing the sale of defense articles and services in the Foreign Military Sales Act. This revision required foreign countries to pay, in U.S. dollars, not less than the full value of the training provided. Since the Foreign Military Sales Act did not define "value" in terms of cost elements, Defense determined which elements constitute full cost. Over the years, we have taken exception to Defense decision to exclude certain costs in pricing foreign military sales. From November 1969 to December 1975, we issued 10 reports to the Congress on problems in the foreign military sales program, some specifically addressing pricing and the inadequate recovery of training costs.[1]

Some of the early pricing problems resulted from the lack of adequate pricing guidelines. Each service developed pricing procedures based on its own interpretation of the law. For example, we reported that in fiscal year 1975, the Navy charged $282,000 for each student attending undergraduate pilot training, whereas the Air Force charged only $81,000 for similar training.[2]

On November 5, 1975, responding to congressional and our concern over pricing of foreign training, the Assistant Secretary

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[1] Foreign Military Sales--A Growing Concern (ID-76-51, June 1, 1976).

[2] Millions of Dollars of Cost Incurred in Training Foreign Military Students Have Not Been Recovered (FGMSD-76-91, Dec. 14, 1976).

of Defense/Comptroller issued specific guidance for pricing training courses. The guidance included detailed procedures for computing the fixed and variable costs to be included in the tuition rates. The guidance also called for an hourly use charge for aircraft; a 1-percent use charge for other training-related equipment; and a 4-percent use charge for non-training assets, such as quarters. The new guidance substantially increased the price of training. In fact, the rates for certain flight training more than doubled.

On August 12, 1976, however, the Deputy Secretary of Defense notified the Chairmen of the House and Senate Committees on Appropriations that he had directed changes in the November 1975 pricing guidance that would result in a 20- to 30-percent reduction in tuition prices. He explained that this had been done because the sudden and substantial increase in prices had a drastic impact on foreign countries that had insufficient time to adjust their budgets for students already scheduled for training. The Deputy Secretary also said that the November 1975 guidance did not recognize the military, political, and economic benefits to be gained by the United States in training foreign students.

To achieve the 20- to 30-percent reduction, the Deputy Secretary proposed two changes to the November 1975 guidance. The first was to eliminate personnel costs for leave, holidays, and retirement. The second was to discontinue the hourly use charge on aircraft and the charge of 1 percent of total course costs to recover depreciation on other training-related equipment. In their place was added an asset use charge of 4 percent of total training costs. The 4-percent charge to cover depreciation of non-training assets remained unchanged.

Both Committees strongly disagreed with these changes. In separate letters to the Deputy Secretary, the Chairmen stated the Committees recognized the benefits gained by the United States in training foreign students, but that the November 1975 guidelines should remain in effect, and the Defense budget was not to be used to subsidize the training of foreign students. Nevertheless, the Department of Defense issued the revised guidelines on September 28, 1976.

We reported that the revised procedures would cost the United States an estimated $40.4 million annually in lost reimbursements (based on fiscal year 1976 data). Moreover, we concluded that the original November 5, 1975, guidance did not adequately recover base operating costs and some personnel costs. We estimated that in addition to the $40.4 million, deficiencies in the original guidance would cost the government at least $9.2 million annually in lost reimbursements.[3]

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[3]Defense Actions to Reduce Charges for Foreign Military Training Will Result in the Loss of Millions of Dollars (FGMSD-77-17, February 23, 1977).

In March 1977, the Chairman of the House Appropriations Committee again questioned Defense's reasons for not obtaining full reimbursement and asked the Department to again review the pricing structure. He also asked us to participate in this review. Subsequently, in May 1977, Defense again revised its pricing policy to include much of the cost excluded by the September 1976 guidance. Defense estimated that the revisions would increase reimbursements to the service appropriations by about $24.3 million during fiscal year 1978. In addition, the Air Force determined that for FMS training alone, the revised guidance would result in $11.8 million in additional reimbursements that would be credited to miscellaneous receipts of the Treasury.

In a May 6, 1977, letter (B-159835) to the Chairman of the House Committee on Appropriations, we reported that, based on a limited review, the Defense estimates of increased reimbursements resulting from the revised pricing policy appeared reasonable. We also pointed out that, while Defense's revisions were a major step toward providing for recovering the full cost of training foreign students, certain issues remained to be resolved. Factors for computing military retirement pay, the cost of other civilian benefits, and the cost of aircraft use and attrition remained too low in the revised instructions.

According to DSAA and Assistant Secretary of Defense/Comptroller officials, Defense has taken corrective action to recover the cost of military retirement and civilian benefits. However, action has not been taken regarding the recovery of aircraft use and attrition costs because these officials believe that no change is necessary.

Defense officials contend that the 1977 guidelines, which are currently in effect, essentially include all training costs for the FMS tuition rate. We have not specifically reviewed the guidelines since their implementation in fiscal year 1978.

TUITION REVENUES REDUCED BY MILLIONS OF DOLLARS DUE TO PRICING CHANGES

The Arms Export Control Act of 1976 restated the requirement that foreign countries pay the full cost of training purchased including an appropriate charge for administrative services, calculated on an average percentage basis to recover the full estimated cost of administering sales made under the act.

The act also allows the President to enter into agreements with NATO countries for the cooperative furnishing of training on a bilateral or multilateral basis. These agreements may exclude reimbursements for indirect costs, administrative surcharges, and costs of housing trainees. However, consistent with the concept of full cost recovery, the act stipulates that the financial principles of such agreements be based on reciprocity.

In 1980, the Arms Export Control Act was amended to add Australia, Japan, and New Zealand to the NATO countries eligible for reciprocal training agreements at a reduced price. The act was also amended to allow countries receiving IMET grant training to purchase additional training under the FMS program at reduced rates through incremental pricing. These changes and inappropriate implementation of its own pricing guidelines by Defense have resulted in the reduction of millions of dollars in tuition revenues annually to the U.S. government.

INDIRECT TRAINING COSTS WAIVED FOR NATO COUNTRIES

Pursuant to the provisions of the 1976 act, on September 17, 1977, the Department of Defense entered into an agreement with the other members of NATO. The House Committee on Appropriations, in a report on the Defense appropriations bill for 1978 (H.R. Rep. No.95-451), expressed reservations about the reciprocal agreement. The Committee commented, in part:

> "Unfortunately, past history indicates that in terms of providing individual training the United States has provided the vast bulk of the training. In addition, most of the individual training provided by the United States is of the high cost/high overhead type, such as pilot training. When asked to provide a list of training courses provided by NATO members for U.S. personnel, DOD provided a list which showed a high of 263 students in 1976 and a low of 101 in 1975. However, of the 263 students, 231 participated in NATO sponsored colleges and courses for which the United States has paid its fair share of the cost, including overhead. In all, about 30 U.S. officers have been attending primarily British and Canadian war colleges and command and staff schools each year."

While not objecting to the agreement, the Committee expressed its desire to study and review the actual operation of the reciprocal agreement and directed Defense to keep the Committee informed as to the number of students trained, the types of training provided, and the costs. The Committee requested the first report by March 1, 1978.

The Defense reports to the Appropriation Committee on the training costs waived to NATO countries have been irregular. Defense has not reported on a regular basis, and its two reports have covered different reporting periods, neither of which was based on a single fiscal year.

According to DSAA and Assistant Secretary of Defense/Comptroller officials, Defense has experienced difficulty in getting

NATO countries to release information on the training costs waived for U.S. students. However, the partial information provided by Defense shows that about $2.7 million in training costs are waived annually for U.S. students by NATO countries. While we do not have figures for a single fiscal year on U.S. training costs waived to NATO countries, the two Defense reports, one for the 15-month period ended December 31, 1979, and the other for the 6-month period ended September 30, 1981, show that the United States waives about $17 million in training costs to NATO countries each year. The difference indicates that Defense appropriations absorb about $14.3 million annually in training costs. The difference results from various factors, including the nature of the training and the number of trainees.

REDUCED NATO PRICE EXTENDED TO AUSTRALIA AND NEW ZEALAND

The International Security and Development Cooperation Act of 1980 contained several amendments to the Arms Export Control Act and Foreign Assistance Act that affect the tuition rates paid by certain countries. This legislation added Australia, Japan, and New Zealand to the group of NATO countries eligible for reciprocal training agreements. The United States signed agreements with Australia on December 23, 1981, and with New Zealand on April 19, 1982, allowing those countries to purchase training at the reduced NATO price. As yet, no agreement has been reached with Japan to furnish training at less than full cost.

INCREMENTAL PRICING FOR COUNTRIES RECEIVING GRANT FUNDED TRAINING

The 1980 amendments to the Foreign Assistance Act and the Arms Export Control Act (1) reduced the IMET rates and (2) allowed incremental pricing of training purchased under the FMS program by countries concurrently receiving IMET grant assistance. The objectives of these amendments were to reverse the decline in the number of students trained under the grant program (from 10,000 in 1970 to about 3,800 in 1979) by reducing tuition rates and allowing countries receiving IMET grant training to purchase additional training at reduced prices under the FMS program.

Reduced IMET tuition rates

The Foreign Assistance Act states that military salaries are not reimbursable to the military departments from grant funds appropriated for the IMET program. However, all other direct and indirect costs are reimbursable. The 1980 amendment now allows these costs to be calculated based on the incremental, or "additional", cost incurred by the United States in providing the training.

We reported that the exclusion of military personnel costs substantially understated the cost of the grant program.[4] While we recognized that the law authorized not charging for certain costs, we recommended that Defense accumulate cost data so that the Congress would know the costs subsidized by Defense appropriations. As yet, Defense does not have a system to accumulate and report the amount of costs incurred but not charged under the grant program.

Because of time constraints and the lack of a Defense system to accumulate total program costs, we did not try to estimate the amount of nonreimbursable program costs being absorbed by the military departments. However, the IMET tuition rates are substantially less than the full cost FMS rates for the same courses. As shown in appendix III, the full FMS tuition rate may be more than 20 times higher than the IMET rate. As a result, the total cost of training foreign students under the IMET program is more than the amount ($46 million in 1983) appropriated by the Congress under the IMET appropriation.

Reduced rates for countries concurrently receiving IMET training

The 1980 amendment also allowed the use of incremental cost to compute tuition charges for training purchased through the military sales program by countries concurrently receiving an IMET grant. Before the amendment, the United States was required to recover the full cost of the training purchased under the FMS program. According to the Senate report (S. Rep. No. 96-732) on the 1980 act, the amendment would not result in the United States subsidizing the training purchased by foreign governments, but rather would maximize the effectiveness of appropriations for the IMET program. The House Report (H. R. Rep. No. 96-884) stated that the inclusion of only additional costs would exclude those fixed overhead costs that the United States would incur even without the grant military trainees. During March 1980 hearings before the House Committee on Foreign Affairs on the pricing change, Defense stated that it could not precisely estimate the impact the new rates would have, but minimized the effect by stating that the costs to be excluded were for such base operating expenses as cutting the grass and painting the buildings. Assistant Secretary of Defense/Comptroller officials told us that Defense had not actually studied the impact of the amendment.

At our request, the services repriced the training purchased at the FMS/IMET tuition rates during fiscal year 1982 up to the applicable full FMS or FMS/NATO rates. As shown in the following table, the 1980 amendment resulted in reduced tuition revenues totaling about $16.7 million in fiscal year 1982.

[4] Improvements Needed in Accounting for Foreign Student Participation in Defense Training Programs (FGMSD-80-58, May 7, 1980).

Reduced Revenues Due to Use of FMS/IMET Rate

Country	Army	Navy	Air Force	Totals
	thousands			
Brazil	$ 15.1	$ 41.6	$ 35.8	$ 92.4
Colombia	-	-	4.7	4.7
Ecuador	-	-	266.6	266.6
Egypt	5,318.7	8.9	2,322.5	7,650.1
Greece	-	77.7	14.7	92.4
Honduras	-	3.9	-	3.9
India	-	-	2.3	2.3
Jordan	1,159.5	4.9	75.0	1,239.4
Korea	221.9	31.3	46.2	299.4
Lebanon	-	-	2.0	2.0
Malaysia	-	3.2	117.6	120.8
Mexico	-	-	1,042.3	1,042.3
Morocco	-	-	143.5	143.5
Pakistan	198.8	9.2	914.9	1,123.0
Peru	-	-	4.1	4.1
Philippines	5.1	-	2.0	7.2
Singapore	504.9	1,923.4	734.9	3,163.2
Somalia	-	-	253.0	253.0
Spain	-	32.0	-	32.0
Sudan	-	-	282.4	282.4
Thailand	-	34.9	-	34.9
Tunisia	64.9	-	-	64.9
Turkey	-	-	2.9	2.9
Venezuela	589.2	45.1	91.4	725.7
Totals	$8,078.2	$2,216.2	$6,358.8	$16,653.2

Note: Columns may not total due to rounding.

INCREMENTAL PRICING MAY CREATE AN INCENTIVE FOR GRANTING TOKEN IMET ASSISTANCE

The provision in the 1980 amendment allowing incremental pricing in the sales program has created a situation whereby a small IMET grant will allow any country to purchase training at the lowest FMS rate. The following two cases demonstrate how these token IMET grants affect the military sales program.

--In 1982, Singapore received about $50,000 in grant program training and purchased $4.7 million in training under the military sales program. This same training would have cost $7.9 million if Singapore had not received the grant and had been required to pay the full FMS rate.

--In 1982, Venezuela received $8,100 in grant training from the Army and purchased training for about $161,000 at the FMS/IMET price. Venezuela would have had to pay $740,415 for this training if it had not received the training grant.

Although the Foreign Assistance Act does not prohibit using the grant program for obtaining a lower FMS price, we believe that providing token grant assistance to reduce the rates paid by a country purchasing training is not a good practice.

BRAZIL RECEIVES NO IMET ASSISTANCE BUT PURCHASED TRAINING AT THE FMS/IMET RATE

Brazil, although not receiving IMET grant assistance, has been allowed to purchase training at the FMS/IMET price since October 1, 1981. It was allowed to purchase $1,272,462 in training at this price. This training should have cost $2,785,770 at the full FMS price. The Arms Export Control Act requires that a country be "concurrently" receiving grant assistance to be eligible for the lower price.

In a letter dated July 22, 1983, DSAA's General Counsel responded to our inquiry on Brazil's eligibility to purchase training at the FMS/IMET price by saying that the executive branch had interpreted "concurrently receiving assistance" as being planned IMET assistance as presented in the Congressional Presentation Document. Corrective action is being considered by the Defense Department.

INCREMENTAL PRICING APPLIED TO COURSES DEDICATED TO FOREIGN STUDENTS

Defense is required by law to recover the "additional", or incremental, cost incurred in providing training under the grant program (excluding military salaries) and through military sales to grantee countries purchasing additional taining. DSAA has informed the Congress that this means only the additional costs incurred in providing training over and above the costs associated with providing the training simultaneously to U.S. military students. However, we noted that the services conduct many training courses for foreign students only (dedicated courses). A dedicated course is one that is not normally conducted for U.S. students, exists predominantly or exclusively for the benefit of the IMET or FMS training program, and may be conducted in a foreign language.

Pricing instructions not applied

Defense cost pricing instructions for FMS/IMET training are applicable both to courses for U.S. and for foreign students only[5] and define how incremental cost is to be computed. We

[5]DoD 7290.3-M, Sections 710 and 712.

would expect that Defense's application of these instructions would lead to greater recovery of incremental costs in the case of dedicated courses as compared with courses attended by U.S. students and a few FMS/IMET students. We found that Defense figured incremental pricing for dedicated courses on the basis of incremental pricing for courses in which mostly U.S. and some foreign students were present.

In reviewing the 70[6] courses dedicated to foreign students, we found that 125 foreign students attended 30 of these courses under the FMS/IMET rate structure. Based on data provided the services potentially up to $4.9 million of costs were not recovered. (The $4.9 million is included in the $16.7 million discussed on pages 11 and 12.) Following is a schedule showing the amounts by service:

	No. of courses	No. of students	Full FMS cost of courses[a]	Total reimbursed	Cost not recovered
				(thousands)	
Army	5	47	$ 698.0	$ 120.5	$ 577.5
Navy	10	17	257.9	96.5	161.4
Air Force	15	61	11,241.9	7,075.2	4,166.7
Totals	30	125	$12,197.8	$7,292.2	$4,905.6

[a]The full FMS price was used because data was not available to compute the full incremental costs. These costs, therefore, represents the maximum costs not recovered.

CONCLUSIONS

In recent years legislative changes have reduced the training rates charged foreign governments and increased the amount of program costs being funded by Defense appropriations. For example, incremental pricing has obscured the total cost of the grant program by reducing the amount of training costs reimbursable to the military departments from appropriated grant funds and thereby increasing the costs that must be funded by Defense appropriations. As a result, total cost of the grant program is more than the amount ($46 million in 1983) appropriated annually by the Congress. We also estimate that pricing changes have reduced annual tuition revenues by about $30 million as follows:

--Agreements with NATO members, resulting in waiving an estimated $14.3 million in training costs.

--Incremental pricing of training sold to countries concurrently receiving grant

[6]Does not include the Panama Canal Area Schools or Defense Language Institute/English Language Center which are primarily for training foreign students.

training assistance under the IMET program resulted in about $16.7 million in reduced revenue. Of this amount potentially 4.9 million was due to Defense's inappropriate application of its own pricing guidelines in connection with dedicated training courses.

Since the services do not accumulate or report the amount of unrecovered costs associated with the FMS and IMET programs, the Congress and Defense are unaware of the total costs of these programs and how much of these costs is being funded through Defense appropriations. Only total cost data provides a comprehensive picture of the value of U.S. foreign aid provided in the form of military training assistance. Reliable total cost information is needed primarily for overall budget decision-making.

Chapter 3 discusses the administration's proposed amendment affecting the pricing structure and contains recommendations to the Congress on full disclosure of costs of these programs.

CHAPTER 3

THE ADMINISTRATION'S PROPOSED CHANGE TO THE PRICING OF FMS TRAINING WOULD INCREASE U.S. COSTS

The administration's proposed amendment would eliminate the current multitier pricing structure on the sale of training and permit only two pricing systems; the one for IMET grant assistance and the lowest price, the FMS/IMET rate, currently charged FMS customers.

The administration proposes to amend section 21(a)(3) of the Arms Export Control Act, which now reads as follows:

> "(a) The President may sell defense articles and defense services from the stocks of the Department of Defense to any eligible country or international organization if such country or international organization agrees to pay in United States dollars --"
>
> * * * * *
>
> "(3) in the case of the sale of a defense service, the full cost to the United States Government of furnishing such service, except that in the case of training sold to a purchaser who is concurrently receiving assistance under chapter 5 of part II of the Foreign Assistance Act of 1961, only those additional costs that are incurred by the government in furnishing such training."

The proposal would strike out "sold to a purchaser who is concurrently receiving assistance under chapter 5 of part II of the Foreign Assistance Act of 1961."

In addition, the administration proposes to repeal section 21 (g), which permits the President to enter into NATO standardization agreements and similar agreements with Japan, Australia, and New Zealand for reciprocal training at reduced costs. Section 21(g) would no longer be needed, because the revision to section 21(a) would include all countries.

IMPACT OF THE PROPOSED AMENDMENT

If approved, the proposal would substantially reduce the amount foreign customers pay for U.S. military training. In 1982, Defense estimated that the amendment would have reduced tuition revenue by $40.5 million, based on the planned fiscal year 1982 training program. Also, the Congressional Budget Office (CBO) staff estimated the revenue reduction would increase to about $47.5 million by 1985, assuming the number of students remained constant during this period. These estimates of revenue reductions were as follows:

1983	1984	1985
	(millions)	
$41.7	$44.5	47.5

CBO staff also concluded that the loss in revenue would subsequently require increases in Defense appropriations or would have to be absorbed by the services.

Using actual, as compared to planned training figures used by Defense and CBO for program year 1982, the services recalculated, at our request, the tuition revenues for the countries currently paying the full FMS or the FMS/NATO rates, to show the effect the proposed amendment would have had in 1982. Repricing showed that more than $38 million in revenue would not have been received if the amendment applied during 1982, as shown below.

Estimated Revenue Reduction
Resulting From Proposed Admendment
(Based on 1982 Program)

Country	Army	Navy	Air Force	Totals
		thousands		
Australia	$142.3	$759.0	$70.3	$971.5
Bahrain	-	35.0	5.5	40.5
Belgium	24.5	-	105.6	130.1
Canada	243.6	269.8	231.5	744.9
Denmark	182.5	14.0	77.0	273.5
France	80.7	64.5	17.2	162.4
Federal Republic of Germany	2,835.2	385.1	3,556.9	6,777.2
Greece	145.5	40.7	-	186.2
Ireland	-	12.1	-	12.1
Israel	-	72.2	222.3	294.5
Italy	47.9	898.8	709.4	1,656.0
Japan	434.4	373.8	1,582.8	2,391.0
Kuwait	2,301.0	62.0	1,035.9	3,398.9
Luxembourg	5.8	-	-	5.8
Netherlands	335.7	123.5	171.0	630.1
New Zealand	22.3	12.2	10.6	45.1
Nigeria	753.6	116.1	1,714.6	2,584.2
Norway	317.9	239.8	132.8	690.5
Qatar	44.1	20.4	17.9	82.4
Saudi Arabia	2,442.0	949.4	8,381.3	11,772.7
Sweden	.7	27.5	3.4	31.6
Switzerland	112.7	-	95.3	208.0
Taiwan	996.3	167.7	134.2	1,298.2
United Arab Emirates	23.6	37.1	1,005.7	1,066.4
United Kingdom	61.4	130.7	33.5	225.6
NATO (other)	1,269.6	-	1,288.8	2,558.4
Total	$12,823.1	$4,811.2	$20,603.5	$38,237.8

Note: Columns may not total due to rounding.

DEPARTMENTS' RATIONALE FOR ELIMINATING THE MULTITIER PRICE STRUCTURE

The Departments of State and Defense explain that the proposed amendment would (1) reduce discriminatory treatment, that is, eliminate charging three different prices for training, (2) enable poorer countries to obtain more U.S. training, (3) eliminate the incentive to provide token levels of grant assistance in order to lower FMS tuition rates, and (4) reduce the costs of administering training sales. The Departments also state that the proposal would provide for charging purchaser countries only for the "additional," or incremental, costs incurred by the government in providing such training over and above the costs associated with providing the training simultaneously to U.S. military trainees. Our comments on the Departments position follow.

Reduce discriminatory treatment. The number of students receiving training at the reduced FMS/IMET price account for a small percentage of the total number of students being trained under the FMS program. For example, only 131, or 5 percent, of the 2,573 students receiving FMS training furnished by the Navy were charged the lower price during 1983. Only 1,959, or 16 percent, the 12,221 FMS students being provided training by all of the services received the lowest FMS price. (See app. II.)

Enable poorer countries to obtain more U.S. training. Historical data does not show that the decrease in prices will necessarily increase the number of students being trained. Even with the reductions in tuition rates resulting from the 1980 amendment to the Arms Export Control Act, the total number of students being trained under the FMS program declined from 17,744 in 1980 to 12,221 in 1983. Also, as can be seen by the list on page 26, the poorer countries are not the ones most affected by the proposed amendment. For example, in 1982 almost $12 million less revenue would have been received from Saudi Arabia had the proposed amendment been in effect. Virtually all of the $38 million would have been saved by the affluent industrialized or oil rich countries, such as the Federal Republic of Germany, Japan, Kuwait, and Saudi Arabia, which would appear to be able to pay the full cost for the training.

Eliminate the incentive to obtain token levels of grant assistance in order to lower FMS tuition rates. The 1980 amendment did create an incentive to obtain token levels of grant assistance in order to get the lower FMS rate. Token grant assistance to reduce tuition rates may be occurring. However, we do not believe this is a good practice. This is discussed in chapter 2. (See p. 12.)

Reduce the costs of administering training sales. According to service officials, the administrative cost savings from

the amendment would be negligible and do not approach the annual multimillion-dollar reduction in sales revenue.

ALTERNATIVE PRICING STRUCTURE DESIRABLE

We believe there is merit in having only a single price structure, but believe it should be the full FMS rate. Recognizing that the Congress has intended for some countries, because of political or national security reasons, to obtain training at a reduced price, or even at no cost, congressional desires could be accommodated by discounting the price of the training. For example, if the Congress desired that some countries receive training at a reduced price, it could authorize a 50-percent discount (or some other percentages). This would simplify the rate determination process while identifying the value of the training cost being waived.

CONCLUSIONS

We found that (1) the full cost of providing training to foreign governments is not being recovered, (2) the proposed amendment would further erode the full cost recovery principle; and (3) options are available to better determine full cost and the amount of costs being waived. According to Defense and CBO estimates, the proposed amendment would reduce revenues by over $40 million annually and, as a result, more of the costs would be funded by Defense appropriations. In previous reports and testimony, we have pointed out that it is a generally accepted government accounting principle that the full cost of a function or product include the cost of overhead and that good business practice calls for estimates of the cost of sales to include the full cost of providing the goods or services. To allow Defense to charge anything less than full cost requires that the under-recovery be absorbed by other Defense appropriations. The proposal for a single tuition rate has merit, but the rate should be based on the full cost of providing the training.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress should amend the Arms Export Control Act to establish a single pricing structure for all training provided under the FMS program, based on full cost determined in accordance with generally accepted accounting principles. If the Congress desires some countries or groups of countries to be able to purchase training under the FMS program at less than the full cost, it should provide guidelines for discounting prices in those cases and require disclosure of the costs waived.

In the interest of appropriate congressional oversight and sound management, the Congress should take legislative action to completely fund the full cost of the IMET grant program under the Foreign Assistance Appropriation Act rather than under both

the Foreign Assistance Appropriation Act and the Defense Appropriation Act as is the current practice. Alternatively, the Congress should consider amending the Foreign Assistance Act to provide for disclosure of all unreimbursed costs of the IMET program.

(Appendix IV contains legislative language for some of these amendments.)

APPENDIX I

CLEMENT J ZABLOCKI WIS CHAIRMAN

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JOHN J BRADY JR
CHIEF OF STAFF

Congress of the United States
Committee on Foreign Affairs
House of Representatives
Washington, D.C. 20515

September 28, 1983

Mr. Charles A. Bowsher
Comptroller General of the
United States
General Accounting Office
441 G Street, N.W.
Room 7026
Washington, D.C. 20458

Dear Mr. Bowsher:

I understand that GAO's National Security and International Affairs Division is currently in the process of reviewing security assistance training provided to foreign governments by the Department of Defense. This review, as I understand, focuses particular attention to the pricing structure of foreign military training.

As you know, the House Committee on Foreign Affairs has a continuing interest in the foreign military training programs. In the past several years, during committee consideration of the foreign aid request, the committee has evaluated several administration requests to modify the pricing structure of the foreign military training programs. As such, a GAO report prepared for the Committee on Foreign Affairs providing a chronology of the price changes which have occurred since 1975 in the foreign military training program and their impact on the Arms Export Control Act's requirement for full cost recovery would be extremely useful to the committee's consideration and analyses of these programs.

Since the report will be used during the committee's oversight hearings of the security assistance programs, the committee would appreciate receiving the final report no later than January 1, 1984.

If you have any questions please do not hesitate to contact Mrs. Toni Verstandig of the staff of the Subcommittee on International Security and Scientific Affairs on 225-8926.

Thanking you for your attention to this request, I am

Sincerely yours,

Clement J. Zablocki
Chairman

CJZ:tvj

SECURITY ASSISTANCE TRAINING PROGRAM
FOR THE 5-YEAR PERIOD (1979-1983)
(Amounts in thousands)

	Army		Navy		Air Force		Totals	
1979	Students	Amount	Students	Amount	Students	Amount	Students	Amount
IMET	1,376	$ 7,500.1	748	$ 3,478.3	1,706	$ 5,654.6	3,830	$ 16,633.0
FMS/NATO	1,251	11,779.1	1,125	6,843.3	1,784	21,600.7	4,160	40,223.1
Full FMS	2,966	13,069.8	2,083	3,975.2	7,575	99,669.4	12,624	116,714.4
Total	5,593	$32.349.0	3,956	$14,296.8	11,065	$126,924.7	20,614	$173,570.5
1980								
IMET	1,941	$ 9,092.8	752	$ 3,434.4	1,543	$ 5,136.0	4,236	$ 17,663.2
FMS/NATO	1,311	$12,930.6	2,110	9,458.6	1,856	215,535.8	5,277	237,925.0
Full FMS	3,939	13,794.6	2,489	6,060.6	6,039	55,300.9	12,467	75,156.1
Total	7,191	$35,818.0	5,351	$18,953.6	9,438	$275,972.7	21,980	$330,744.3
1981								
IMET	2,077	$ 7,193.9	920	$ 3,818.4	1,746	$ 4,033.2	4,743	$ 15,045.5
FMS/IMET*	916	2,816.1	164	5,738.1	-	-	1,080	8,554.2
FMS/NATO	1,630	13,229.7	1,397	10,866.3	1,655	117,475.4	4,682	141,571.4
Full FMS	2,837	10,557.8	1,125	5,134.1	4,433	64,155.7	8,395	79,847.6
Total	7,460	$33,797.5	3,606	$25,556.9	7,834	$185,664.3	18,900	$245,018.7
1982								
IMET	3,085	$ 9,659.9	1,103	$ 4,692.0	2,661	$ 6,563.3	6,849	$ 20,915.2
FMS/IMET	2,892	10,031.5	156	722.7	2,135	12,301.1	5,183	23,055.3
FMS/NATO	1,468	12,822.8	1,613	9,537.1	2,543	126,719.0	5,624	149,078.9
Full FMS	2,996	11,076.5	382	2,763.7	2,701	42,415.0	6,079	56,255.2
Total	10,441	$43,590.7	3,254	$17,715.5	10,040	$187,998.4	23,735	$249,304.6
1983 (est)								
IMET	3,443	$11,856.6	1,424	$ 6,850.8	2,755	$ 7,698.5	7,622	$ 26,405.9
FMS/IMET	1,038	4,478.8	131	3,072.0	790	7,531.5	1,959	15,082.3
FMS/NATO	1,222	11,157.0	1,887	13,433.2	1,931	110,238.0	5,040	134,828.2
Full FMS	2,591	10,220.8	555	3,703.4	2,076	30,617.2	5,222	44,541.4
Total	8,294	$37,713.2	3,997	$27,059.4	7,552	$156,085.2	19,843	$220,857.8

* FMS/IMET figures do not represent a full year for 1981

APPENDIX II

APPENDIX III

EXAMPLES OF THE DIFFERENT ARMY TRAINING COURSE PRICES FOR FY 1983

Army Course Title	IMET	FMS/IMET	FMS/NATO	Full FMS
Engineer Officer Basic	$1,045	$2,394	$5,656	$10,468
Pathfinder	435	906	5,078	5,819
Ordnance Officer Basic-Munitions Material Management	982	1,951	7,297	13,563
Judge Advocate General Officer Basic	323	370	2,902	3,990
Mapping and Charting Geodesy Officer	520	550	8,480	9,070
Offset Printing	350	380	4,960	6,140
OH-58 Helicopter Repair	464	744	3,641	6,775
Topographic Instrument Repair	660	690	6,960	8,210
Improved Hawk Launcher Crew Member (Non-U.S.)	252	511	2,488	4,253
Command and General Staff Officer	2,739	4,511	19,303	28,978
Army War College Fellow	5,513	7,212	27,739	54,289

APPENDIX III

EXAMPLES OF THE DIFFERENT AIR FORCE TRAINING COURSE PRICES FOR FY 1983

Air Force Course Title	IMET	FMS/IMET	FMS/NATO	Full FMS
Pilot Instructor Training (T-37)	$ 28,130	$ 43,470	$ 65,820	$ 92,970
Experimental Test Pilot Course/Foreign	232,140	253,360	319,950	607,940
Flight Test Navigator/ Foreign	94,840	104,790	135,160	267,840
Basic Survival Training Course/Foreign	240	560	1,350	1,920
Water Survival Training	150	260	1,140	1,430
Weather Technician	1,960	4,300	8,160	16,100
Weapons Controller/Foreign	1,060	1,240	11,110	19,150
Electronic Warfare Operations/ Staff Officer	740	1,260	7,890	15,890
Air Command and Staff College	1,920	6,880	9,340	24,870
Air War College	4,090	16,480	25,800	49,450

APPENDIX III

EXAMPLES OF THE DIFFERENT NAVY TRAINING COURSE PRICES FOR FY 1983

Navy Course Title	IMET	FMS/IMET	FMS/NATO	Full FMS
Infantry Training School USMC	$ 240	$ 778	$ 1,063	$ 1,670
Tactical Action Officer	547	2,254	5,033	7,558
Underwater Demolition/Seal Training Basic	2,304	5,695	9,849	14,533
IBM 360 (OS) COBOL Programming	2,689	13,182	21,049	32,023
Amphibious Warfare School Training	2,999	7,191	9,551	22,519
Officer Candidate School Coast Guard	1,177	2,881	3,464	7,488
Naval Command College	3,326	10,493	18,083	30,459
Naval Staff College	3,035	8,076	12,002	18,523
Armed Forces Staff College	2,462	6,630	15,525	18,605
Command and Staff College USMC	3,412	9,256	12,718	28,274

PROPOSED LEGISLATIVE AMENDMENTS

FMS Training

Section 1. Section 21(a)(3) of the Arms Export Control Act is amended--

(i) by striking out all that follows "such service" and inserting in lieu thereof "in accordance with generally accepted principles".

Section 2. Section 21(g) of such Act is amended--

(i) by inserting "(1)" after "(g)"'

(ii) by striking the second sentence of the section and inserting in lieu thereof, "Such agreements shall include reimbursement for all direct and indirect costs."; and

(iii) by adding the following subsection:

"(2) Agreements already entered into under subsection (1) that do not include reimbursement for all direct and indirect costs shall be renegotiated no later than _____ after the enactment of this provision to include all such costs."

IMET

Section 1. Chapter 5 of the Foreign Assistance Act of 1961 is amended by adding a new section 544 immediately after section 543:

"Sec. 544. Appropriations Chargeable.--All direct and indirect costs, as determined by generally accepted accounting principles, incurred by the Department of Defense or any military department in providing military education and training shall be charged only to appropriations made for foreign assistance."

Section 2. Section 644(m)(5) of such Act is amended by striking out "additional" and inserting in lieu thereof, "all direct and indirect".

Section 3. Section 632(d) of such Act is amended by striking out "(other than salaries of members of the Armed Forces of the United States)" and inserting in lieu thereof, "(other than salaries of members of the Armed Forces of the United States except the salaries of members involved in the program authorized by Chapter 5, Part II of this Act)".

Alternate IMET

Section 1. Chapter 5 of the Foreign Assistance Act of 1961 is amended by adding a new section 544 after section 543:

"Sec. 544 Report.--(1) The amount and identity of all direct and indirect costs, as deterprinciples, incurred by the Department of Defense or any military department in providing military education and training shall be, to the extent not reimbursed from appropriations made for foreign assistance and related programs, reported to the Foreign Relations Committee of the Senate, the Foreign Affairs Committee of the House of Representatives, and the Appropriations Committees of the Senate and House of Representatives."

"(2) The report required by subsection (1) shall be submitted as part of the report required by section 634 of this Act."

(463697)